

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>Capital Area Transportation Authority</b>	County <b>Ingham</b>
Fiscal Year End <b>September 30, 2007</b>	Opinion Date <b>March 7, 2008</b>	Date Audit Report Submitted to State <b>March 11, 2008</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

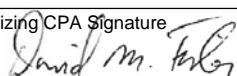
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) <b>Single Audit</b>	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) <b>Rehmann Robson</b>		Telephone Number <b>517-787-6507</b>		
Street Address <b>675 Robinson Road</b>		City <b>Jackson</b>	State <b>Mi</b>	Zip <b>49203</b>
Authorizing CPA Signature 		Printed Name <b>David M. Fisher, CPA</b>		License Number <b>10337</b>

# **Capital Area Transportation Authority**



## **Financial Statements**

**For The Years Ended  
September 30, 2007 and 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

# CAPTIAL AREA TRANSPORTATION AUTHORITY

For the Years Ended September 30, 2007 and 2006

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

March 7, 2008

To the Board of Directors of the  
Capital Area Transportation Authority  
Lansing, Michigan

We have audited the accompanying financial statements of the major fund of the ***Capital Area Transportation Authority*** as of and for the years ended September 30, 2007 and September 30, 2006, and the remaining fund information of the Authority as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund of the Capital Area Transportation Authority as of September 30, 2007 and 2006, and the remaining fund information as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-7 and the Retirement System schedules on pages 30-31 are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2008, on our consideration of the Authority's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information for the years ended September 30, 2007 and 2006 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The information on pages 32 through 45 inclusive except for pages 40 and 43, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the 2007 basic financial statements taken as a whole. The information on pages 40 and 43 and 46 through 48 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the year ending September 30, 2007**

The Management Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities of the Capital Area Transportation Authority (Authority) for the year ended September 30, 2007. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

### **FINANCIAL HIGHLIGHTS**

The Authority experienced an increase in net assets of \$4.8 million, an increase of 10.3% over 2006, assisted by capital contributions from the Federal and State governments and increased fare revenue.

Overall revenues, including capital contributions, decreased from \$43.9 million in 2006 to \$42.5 million in 2007, a 3.2% decrease. The decrease was primarily the result of a \$2.6 million decrease in capital expenditures.

- Operating revenues increased \$265,590 or 4.3%.
- Non-operating revenues increased \$1,023,208 or 3.7%.
- Capital contributions decreased \$2,639,866 or 25.4%.
- Operating expenses increased \$1,915,675 or 5.4%.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplemental information and compliance information.

The basic financial statements include two kinds of statements:

- The first statement is the Enterprise Fund, which tells how basic transportation services were financed in the short-term and what remains for future spending.
- The second statement is the Pension Trust Fund, which is a fiduciary fund. This statement provides information about the financial relationship in which the Authority acts as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the more significant information contained within the statements and provide more detailed data. The notes are followed by a series of required supplemental information that further explains and supports the financial statements. The compliance information provides data relating to the basic transportation services provided.

## PROPRIETARY FUND STATEMENT

The proprietary fund statement reports information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The balance sheet includes all of the Authority's assets and liabilities. The statement of revenues, expenses and changes in net assets accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The net assets of the proprietary fund are reported in the balance sheet. Net assets – the difference between the Authority's assets and liabilities – are one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial position is improving or deteriorating. To assess the overall health of the Authority, you must also consider additional factors such as changes in the Authority's tax base, the condition of its rolling stock and facilities and changes in Federal and State programs.

## FIDUCIARY FUND STATEMENT

The Authority administers pension plans which cover substantially all union and administrative employees. The Authority is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the proprietary fund financial statements because the Authority cannot use these assets to finance its operations.

## NET ASSETS

The Authority's total net assets at September 30, 2007 were \$51.4 million, an increase of approximately \$4.8 million or 10.3%. Total assets increased \$3.8 million or 6.7% and total liabilities decreased \$1.0 million or 10.5%.

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### CAPITAL AREA TRANSPORTATION AUTHORITY

#### NET ASSETS (in thousands of dollars)

	As of September 30, 2007	2006	% Change
<b>ASSETS</b>			
Current Assets	\$17,752	\$15,874	11.8%
Capital Assets	42,407	40,525	4.6%
<b>TOTAL ASSETS</b>	<b>60,159</b>	<b>56,399</b>	<b>6.7%</b>
<b>LIABILITIES</b>			
Current liabilities	4,270	4,530	-5.7%
Long-term debt	4,360	5,138	-15.1%
Other long-term liabilities	146	134	9.0%
<b>TOTAL LIABILITIES</b>	<b>8,776</b>	<b>9,802</b>	<b>-10.5%</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	37,269	34,638	7.6%
Unrestricted net assets	14,114	11,959	18.0%
<b>TOTAL NET ASSETS</b>	<b>\$51,383</b>	<b>\$46,597</b>	<b>10.3%</b>

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## CHANGES IN NET ASSETS

The increase in net assets in 2007 was \$4.8 million, compared to the \$8.1 million increase in 2006. (See table below.)

<b>CAPITAL AREA TRANSPORTATION AUTHORITY</b>			
<b>CHANGES IN NET ASSETS (in thousands of dollars)</b>			
	<b>As of September 30,</b>		
	<b>2007</b>	<b>2006</b>	<b>% Change</b>
<b>OPERATING REVENUE</b>			
Passenger fares	\$ 3,701	\$ 3,543	4.6%
Other	2,679	2,571	4.2%
<b>TOTAL OPERATING REVENUE</b>	<b>6,380</b>	<b>6,114</b>	<b>4.3%</b>
<b>OPERATING EXPENSES</b>			
Total operating expenses			
before depreciation	32,588	31,457	3.6%
Depreciation	5,128	4,343	18.1%
<b>TOTAL OPERATING EXPENSES</b>	<b>37,716</b>	<b>35,800</b>	<b>4.0%</b>
<b>OPERATING LOSS</b>	<b>(31,336)</b>	<b>(29,686)</b>	<b>5.6%</b>
<b>NONOPERATING REVENUES</b>			
Tax Revenue	12,580	12,094	4.0%
Government operating grants	14,889	14,489	2.8%
Other	905	768	17.8%
<b>TOTAL NONOPERATING REVENUES</b>	<b>28,374</b>	<b>27,351</b>	<b>3.7%</b>
<b>NET LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(2,962)</b>	<b>(2,335)</b>	<b>26.9%</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>7,748</b>	<b>10,387</b>	<b>-25.4%</b>
<b>CHANGE IN NET ASSETS</b>	<b>4,786</b>	<b>8,052</b>	<b>-40.6%</b>
Total Net Assets, beginning	46,597	38,454	21.2%
<b>TOTAL NET ASSETS, ENDING</b>	<b>\$51,383</b>	<b>\$46,597</b>	<b>10.3%</b>

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

During the 2007 and 2006 fiscal years, the Authority had invested \$7.7 million and \$10.4 million respectively in capital assets from capital grants, including:

	<u>2007</u>	<u>2006</u>
Building renovations	\$ 976,083	\$ 3,014,361
Revenue vehicles	5,750,622	6,780,129
Furniture and fixtures	603,269	246,904
Bus shelters	160,082	127,697
Equipment	<u>257,671</u>	<u>218,502</u>
Total	<u>\$ 7,747,727</u>	<u>\$ 10,387,593</u>

### Capital Area Transportation Authority capital assets (net of depreciation)

	<u>2007</u>	<u>2006</u>
Land	\$ 1,821,363	\$ 1,821,363
Buildings	16,437,753	16,419,256
Revenue vehicles	21,511,736	20,063,012
Furniture, fixtures and computers	937,678	670,885
Bus shelters and signs	511,225	392,298
Equipment	<u>1,187,162</u>	<u>1,158,416</u>
Total	<u>\$ 42,406,917</u>	<u>\$ 40,525,230</u>

More detailed information about capital assets can be found in Note II-B to the financial statements.

### Long-term debt

At year end, the authority had \$4.4 million in long term debt, a reduction of 15.1% from last year. More detailed information about the Authority's long term liabilities can be found in Note II-C to the financial statements.

## **FACTORS BEARING ON THE AUTHORITY'S FUTURE**

At the time these financial statements were prepared and audited, the Authority was aware of one existing circumstance that could significantly affect its financial health in the future. For the fiscal year 2007, the Authority received approximately 30% of its funds used for operations from the State of Michigan. This funding was based on the Authority receiving 32.52% of its eligible operating expenses for urban service and 38.62% of its eligible operating expenses for non-urban service from the State compared to 32.82% and 38.89% respectively in fiscal year 2006. Effective October 1, 2007, the stated rates of reimbursement were reduced to 30.63% and 36.15%, respectively. It is possible that budget constraints within the State could result in further reduction of this funding formula.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers, taxpayers and other interested parties with a general overview of the finances of the Capital Area Transportation Authority and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Capital Area Transportation Authority at 4615 Tranter Ave., Lansing, MI 48910.

## BASIC FINANCIAL STATEMENTS

# Capital Area Transportation Authority

## Statements of Net Assets

	September 30,	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,062,517	\$ 223,021
Investments	13,664,671	10,495,120
Accounts receivable	240,081	295,677
Due from federal government	657,196	1,781,872
Due from state government	153,276	847,176
Due from local governmental units	575,181	787,316
Single business taxes receivable	15,522	141,118
Property tax receivable	33,851	12,186
Inventories	950,556	877,768
Prepaid expenses	399,163	413,102
Total current assets	<u>17,752,014</u>	<u>15,874,356</u>
Noncurrent assets:		
Capital assets not being depreciated	1,821,363	1,821,363
Capital assets being depreciated, net	40,585,554	38,703,865
	<u>42,406,917</u>	<u>40,525,228</u>
<b>Total assets</b>	<u>60,158,931</u>	<u>56,399,584</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	984,036	1,129,618
Accrued payroll	304,885	273,785
Accrued pension	473,783	525,849
Accrued interest	81,672	93,587
Accrued insurance	100,759	210,215
Accrued vacation, incentive and sick pay	912,833	892,602
Current portion of capital lease obligations	778,214	749,617
Other current liabilities	32,852	1,357
Reserve for workers' compensation claims	61,496	177,162
Reserve for health insurance costs	428,159	385,488
Unearned revenue	111,142	91,306
Total current liabilities	<u>4,269,831</u>	<u>4,530,586</u>
Long-term liabilities:		
Capital lease obligations, net	4,359,717	5,137,930
Accrued severance pay	146,110	133,763
Total long-term liabilities	<u>4,505,827</u>	<u>5,271,693</u>
<b>Total liabilities</b>	<u>8,775,658</u>	<u>9,802,279</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	37,268,986	34,637,681
Unrestricted	14,114,287	11,959,624
<b>Total net assets</b>	<u>\$ 51,383,273</u>	<u>\$ 46,597,305</u>

The accompanying notes are an integral part of these financial statements.

**Capital Area Transportation Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**

	<b>For the Year Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating revenues</b>		
Linehaul	\$ 2,993,073	\$ 2,876,764
MSU extra services	1,619,520	1,460,886
Spectran	636,546	605,480
CATA rural service	62,763	53,106
Senior/handicapper shopping bus	8,418	8,016
Meridian Redi-Ride	300,475	287,703
Special services	206,741	272,594
Other revenues	552,524	549,921
Total operating revenue	6,380,060	6,114,470
<b>Operating expenses</b>		
Labor and fringe benefits	21,113,353	20,906,796
Services	1,452,724	1,388,336
Advertising	527,544	315,147
Materials, fuel and supplies	3,753,529	3,652,032
Utilities	449,072	444,652
Insurance and self-insured costs	1,114,917	830,470
Purchased transportation services	3,754,539	3,433,690
Miscellaneous	174,887	215,600
Interest	212,694	240,679
Leases and rentals	34,808	29,553
Depreciation	5,127,951	4,343,388
Total operating expenses	37,716,018	35,800,343
Operating loss	(31,335,958)	(29,685,873)
<b>Nonoperating revenues</b>		
Tax revenue:		
Property tax	12,580,862	11,984,378
Single business tax inventory reimbursement	(1,348)	110,074
Government operating grants:		
Federal	1,183,193	1,183,557
State	10,291,467	10,604,047
Local	3,280,214	2,600,000
Planning and technical study grants	134,564	100,772
Investment income	498,973	426,190
Other nonoperating revenue	406,274	341,973
Total nonoperating revenues	28,374,199	27,350,991
Net loss before capital contributions	(2,961,759)	(2,334,882)
Capital contributions - grants	7,747,727	10,387,593
Change in net assets	4,785,968	8,052,711
Net assets, beginning of year	46,597,305	38,544,594
<b>Net assets, end of year</b>	<b>\$ 51,383,273</b>	<b>\$ 46,597,305</b>

The accompanying notes are an integral part of these financial statements.

# Capital Area Transportation Authority

## Statements of Cash Flows

	<b>For the Year Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Receipts from operations	\$ 8,590,134	\$ 4,559,058
Payments to suppliers	(11,830,404)	(10,886,363)
Payments to employees	(21,113,353)	(20,906,796)
Net cash used in operating activities	(24,353,623)	(27,234,101)
<b>Cash flows from noncapital financing activities:</b>		
Federal operating grants	1,183,193	1,183,557
State of Michigan grants	10,426,031	10,704,819
Local nonoperating revenues	16,266,002	15,036,425
Net cash provided by noncapital financing activities	27,875,226	26,924,801
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(7,009,640)	(9,665,093)
Capital contributed by governmental units	7,747,727	10,387,593
Repayment of capital lease obligation	(749,616)	(722,070)
Net cash provided by (used in) capital and related financing activities	(11,529)	430
<b>Cash flows from investing activities:</b>		
Purchases of investments	(3,169,551)	(279,692)
Investment income	498,973	426,190
Net cash provided by (used in) investing activities	(2,670,578)	146,498
Net increase (decrease) in cash and cash equivalents	839,496	(162,372)
Cash and cash equivalents, beginning of year	223,021	385,393
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,062,517</b>	<b>\$ 223,021</b>

Continued...

**Capital Area Transportation Authority**  
**Statements of Cash Flows (Concluded)**

	<b>For the Year Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>		
Operating loss	\$ (31,335,958)	\$ (29,685,873)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	5,127,951	4,343,388
Changes in assets and liabilities:		
Receivables	2,190,238	(1,550,709)
Inventories	(72,788)	(36,616)
Prepaid expenses	13,939	(12,763)
Accounts payable	(145,582)	269,386
Accruals	(109,759)	(424,705)
Other current liabilities	31,495	(2,327)
Reserve for workers' compensation claims	(115,666)	30,724
Reserve for health insurance costs	42,671	(159,903)
Unearned revenue	19,836	(4,703)
<b>Net cash used by operating activities</b>	<b>\$ (24,353,623)</b>	<b>\$ (27,234,101)</b>

The accompanying notes are an integral part of these financial statements.



**Capital Area Transportation Authority**  
**Statements of Fiduciary Net Assets**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Investments in insurance contracts	\$ 25,893,951	\$ 23,588,307
Accounts receivable	701,132	623,058
<b>Total assets</b>	<b>26,595,083</b>	<b>24,211,365</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 26,595,083</b>	<b>\$ 24,211,365</b>

The accompanying notes are an integral part of these financial statements.

**Capital Area Transportation Authority**  
**Statements of Changes in Fiduciary Net Assets**

	<b>For the Year Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Additions</b>		
Investment income:		
Contract investment income	\$ 941,584	\$ 897,553
Net appreciation in fair value of investments	704,294	201,529
Net investment income	<u>1,645,878</u>	<u>1,099,082</u>
Contributions:		
Employer	1,319,914	1,201,108
Plan members	744,311	705,782
Total contributions	<u>2,064,225</u>	<u>1,906,890</u>
Total additions	<u>3,710,103</u>	<u>3,005,972</u>
<b>Deductions</b>		
Participant benefits	1,270,950	1,027,478
Administrative expenses	<u>55,435</u>	<u>46,279</u>
Total deductions	<u>1,326,385</u>	<u>1,073,757</u>
Net additions to net assets held in trust	2,383,718	1,932,215
<b>Net assets held in trust for pension benefits:</b>		
Beginning of year	<u>24,211,365</u>	<u>22,279,150</u>
End of year	<u><u>\$ 26,595,083</u></u>	<u><u>\$ 24,211,365</u></u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Capital Area Transportation Authority (CATA) is a public body organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 55 of 1963. The Authority has the capability and authority to provide public transportation to the general public in the greater Lansing area. Its member municipalities include the cities of Lansing and East Lansing and the townships of Delhi, Delta, Lansing and Meridian. The Authority is also authorized by the Act to operate within certain service boundaries which include the counties of Ingham, Eaton and Clinton. The Authority has contracted with the County of Ingham to administer and manage transportation services to that area in the county not included in the municipalities listed above.

#### *Funds with Other Year-Ends*

Pension Trust Funds are reported on fiscal years ended December 31, 2006 and 2005.

#### B. Measurement focus, basis of accounting, and financial statement presentation

The proprietary fund and pension trust fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and entitlements. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The government accounts for its operations in a single enterprise fund. Additionally, the government reports pension trust funds that account for the activities of the Union and Administrative Employees pension plans.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenues of the enterprise fund are charges to customers for sales and services. Property taxes and grants received to subsidize operations are classified as nonoperating revenues.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### C. Assets, liabilities and equity

#### 1. *Deposits and investments*

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Pension plan investments in unallocated insurance contracts are valued at contract value. All other investments of the Authority are stated at fair value.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

#### 2. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### 3. *Capital assets*

Capital assets, which include property, plant, and equipment, are reported in the proprietary fund financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-30
Revenue vehicles	4-12
Equipment	3-10

### 4. *Accrued vacation, incentive and sick pay*

It is the Authority's policy to not permit employees to accumulate unused vacation or sick time from year to year. The liability recorded at year-end represents earned vacation, incentive and sick time earned but not yet paid.

### 5. *Accrued severance pay*

The Authority has recorded a liability for estimated benefits due to employees who had salaried and/or administrative status on May 1, 1990, and who are expected to retire at age 55 or older with at least 10 years of continuous service. Employees meeting these requirements are entitled to ninety days of pay.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### 6. *Property taxes*

Property taxes attach as an enforceable lien on property as of the date they are levied. The taxes are levied as of December 1 and become delinquent after February 14. In March, taxes on real property still delinquent are purchased by the County's Tax Revolving Funds. Property tax revenues are recognized by the Authority in the fiscal year for which the taxes are levied to the extent that they result in current receivables (i.e., are collected within 60 days after fiscal year-end).

## II. DETAILED NOTES ON ALL FUNDS

### A. Deposits and investments

The following is a reconciliation of deposit and investment balances as of September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
<b>Statement of Net Assets:</b>		
Cash and cash equivalents	\$ 1,062,517	\$ 223,021
Investments	<u>13,664,671</u>	<u>10,495,120</u>
	<u><b>\$ 14,727,188</b></u>	<u><b>\$ 10,718,141</b></u>
 <b>Deposits and Investments:</b>		
Bank deposits	\$ 1,649,570	\$ 814,821
Investments	13,064,671	9,895,120
Cash on hand	<u>12,947</u>	<u>8,200</u>
	<u><b>\$ 14,727,188</b></u>	<u><b>\$ 10,718,141</b></u>

In addition, as of December 31, 2006 and 2005, the Authority reported investments in the Statement of Fiduciary Net Assets of \$25,893,951 and \$23,588,307, respectively.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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The Authority chooses to disclose its investments by specifically identifying each.

As of September 30, 2007, the Authority had the following investments.

	<b>Carrying Amount (Fair Value)</b>	<b><u>Maturity</u></b>	<b><u>Credit Rating</u></b>
Governmental money market funds	<b><u>\$ 13,064,671</u></b>	n/a	n/a

As of September 30, 2006, the Authority had the following investments.

	<b>Carrying Amount (Fair Value)</b>	<b><u>Maturity</u></b>	<b><u>Credit Rating</u></b>
U.S. Treasury Bills	\$ 506,861	12/31/2006	Moody's Aaa
Governmental money market funds	<u>9,388,259</u>	n/a	n/a
<b>Total investments</b>	<b><u>\$ 9,895,120</u></b>		

The investments reported in the Statement of Fiduciary Net Assets were comprised entirely of investments in insurance contracts held by the Principal Financial Group.

### Deposit and investment risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates on investments are listed above.



# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings have been identified above for the Authority's investments.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of September 30, 2007 and 2006, \$1,300,574 and \$758,072, respectively, of the Authority's bank balance of \$2,015,556 and \$1,562,723, respectively, was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. As of September 30, 2007 and 2006, none of the Authority's investments, excluding the money market accounts, which are not subject to custodial credit risk, were exposed to risk since the securities are held in the Authority's name by the counterparty.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

### B. Capital assets

Capital assets activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated -				
Land	\$ 1,821,363	\$ -	\$ -	\$ 1,821,363
Capital assets, being depreciated:				
Buildings	24,898,771	989,271	57,938	25,830,104
Vehicles	36,368,405	5,116,983	1,966,614	39,518,774
Furniture, fixtures and computers	2,089,677	564,482	-	2,654,159
Bus shelters and signs	1,019,958	160,082	-	1,180,040
Equipment	3,034,560	178,822	-	3,213,382
Total capital assets being depreciated	67,411,371	7,009,640	2,024,552	72,396,459
Less accumulated depreciation for:				
Buildings	8,479,514	970,775	57,938	9,392,351
Vehicles	16,357,821	3,615,831	1,966,614	18,007,038
Furniture, fixtures and computers	1,418,794	297,687	-	1,716,481
Bus shelters and signs	627,660	41,155	-	668,815
Equipment	1,823,717	202,503	-	2,026,220
Total accumulated depreciation	28,707,506	5,127,951	2,024,552	31,810,905
Total capital assets, being depreciated, net	38,703,865	1,881,689	-	40,585,554
Total capital assets, net	\$ 40,525,228	\$ 1,881,689	\$ -	\$ 42,406,917

If capital assets purchased with governmental funds are withdrawn from mass transportation service, the Authority must remit to the government its proportionate share of the fair market value.

Depreciation expense for the years ended September 30, 2007 and 2006 was \$5,127,951 and \$4,343,388, respectively.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

Capital assets activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated - Land	\$ 1,821,363	\$ -	\$ -	\$ 1,821,363
Capital assets, being depreciated:				
Buildings	21,916,714	3,025,328	43,271	24,898,771
Vehicles	37,527,576	6,112,294	7,271,465	36,368,405
Furniture, fixtures and computers	2,876,037	246,982	1,033,342	2,089,677
Bus shelters and signs	892,262	127,696	-	1,019,958
Equipment	3,923,980	152,793	1,042,213	3,034,560
Total capital assets being depreciated	67,136,569	9,665,093	9,390,291	67,411,371
Less accumulated depreciation for:				
Buildings	7,654,297	868,488	43,271	8,479,514
Vehicles	20,643,996	2,985,290	7,271,465	16,357,821
Furniture, fixtures and computers	2,190,206	261,930	1,033,342	1,418,794
Bus shelters and signs	594,429	33,231	-	627,660
Equipment	2,671,481	194,449	1,042,213	1,823,717
Total accumulated depreciation	33,754,409	4,343,388	9,390,291	28,707,506
Total capital assets, being depreciated, net	33,382,160	5,321,705	-	38,703,865
Total capital assets, net	\$ 35,203,523	\$ 5,321,705	\$ -	\$ 40,525,228

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

### C. Long-term debt

#### *Changes in Long-Term Debt*

Following is a summary of long-term debt activity for the year ended September 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases payable	\$ 5,887,547	\$ -	\$ (749,616)	\$ 5,137,931	\$ 778,214
Accrued vacation, incentive and sick pay	892,602	1,262,222	(1,241,991)	912,833	912,833
Accrued severance pay	133,763	12,347	-	146,110	-
	<u>\$ 6,913,912</u>	<u>\$ 1,274,569</u>	<u>\$ (1,991,607)</u>	<u>\$ 6,196,874</u>	<u>\$ 1,691,047</u>

#### *Capital Lease Payable*

The Authority has entered into a lease agreement to purchase revenue vehicles. Capital leases outstanding as of September 30 are as follows:

	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>2007</b>						
Comerica Leasing Corporation	3.815%	<u>\$ 5,887,547</u>	<u>\$ -</u>	<u>\$ (749,617)</u>	<u>\$ 5,137,930</u>	<u>\$ 778,214</u>
<b>2006</b>						
Comerica Leasing Corporation	3.815%	<u>\$ 6,609,617</u>	<u>\$ -</u>	<u>\$ (722,070)</u>	<u>\$ 5,887,547</u>	<u>\$ 749,617</u>

Capital lease debt service requirements to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 778,214	\$ 974,226	\$ 1,752,440
2009	807,903	974,226	1,782,129
2010	838,725	974,227	1,812,952
2011	870,722	974,226	1,844,948
2012	903,940	974,226	1,878,166
2013	938,426	974,227	1,912,653
<b>Total</b>	<u>\$ 5,137,930</u>	<u>\$ 5,845,358</u>	<u>\$ 10,983,288</u>

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

Capital assets acquired under capital leases are included in vehicles as of September 30, as follows:

	<u>2007</u>	<u>2006</u>
Vehicles	\$ 8,972,974	\$ 8,972,974
Accumulated depreciation	<u>(4,145,513)</u>	<u>(3,397,767)</u>
	<u><b>\$ 4,827,461</b></u>	<u><b>\$ 5,575,207</b></u>

### III. OTHER INFORMATION

#### A. Risk management

The Authority is exposed to various risks of loss related to assets; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority has established a limited risk management program for workers' compensation. An excess coverage insurance policy covers individual claims in excess of \$300,000, aggregate claims in excess of \$500,000 and maximum insurance of \$5,000,000.

Changes in workers' compensation claims liabilities are as follows:

	<u>For the Year Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>
Estimated liability, beginning of year	\$ 177,162	\$ 146,438
Current year claims and changes in estimate	34,218	211,366
Claim payments	<u>(149,884)</u>	<u>(180,642)</u>
Estimated liability, end of year	<u><b>\$ 61,496</b></u>	<u><b>\$ 177,162</b></u>

Further, the Authority has established a limited risk management program for health and related benefits such as vision and dental. An excess coverage insurance policy covers individual claims per policy period in excess of \$100,000, aggregate claims in excess of \$1,000,000, and maximum insurance coverage of \$1,000,000 per individual.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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Changes in health and related benefits claims liabilities are as follows:

	<b>For the Year Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Estimated liability, beginning of year	\$ 385,488	\$ 545,391
Current year claims and changes in estimate	3,294,109	2,790,866
Claim payments	<u>(3,251,438)</u>	<u>(2,950,769)</u>
Estimated liability, end of year	<u>\$ 428,159</u>	<u>\$ 385,488</u>

The Capital Area Transportation Authority is also a member of the Michigan Transit Pool Liability Trust Fund. This pool provides property and casualty insurance to member transportation authorities. Pool members may be subject to supplemental assessments in the event of deficiencies. The Authority has purchased additional insurance coverage in the amount of \$7,000,000 for excess liability.

The Authority purchases commercial insurance to cover other risks of loss.

### **B. Defined benefit pension plans**

#### **Union Employees' Pension Plan**

##### *Plan Membership*

Membership of the plan consisted of the following:

	<b>January 1,</b>	
	<b>2007</b>	<b>2006</b>
Retirees and beneficiaries receiving benefits	70	68
Terminated plan members entitled to but not yet receiving benefits	29	21
Active plan members	<u>183</u>	<u>188</u>
<b>Total</b>	<u><b>282</b></u>	<u><b>277</b></u>

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### *Plan Description*

The Authority administers the Union Employees' Pension Plan, a single-employer, defined benefit pension plan that covers substantially all union employees with at least 90 days and 1,000 hours of service. Benefit provisions are established and may be amended by the Authority's Board of Directors under the Capital Area Transportation Authority Retirement Plan (#001) subject to the terms of collective bargaining. The Board has delegated the authority to manage certain plan assets to Principal Life Insurance Company. Separate financial statements of the Plan have not been issued.

Benefits are 100% vested after 10 years of service. Authority employees who retire at or after age 59 are entitled to a monthly benefit equal to years of accrued service multiplied by scheduled rates as determined by the employee's retirement date. Early retirement is available on or after age 55 at a reduced monthly benefit. The plan also provides disability, single sum death and survivor annuity death benefits.

### *Contributions*

Each active participant is required to contribute \$59.50 per week to the plan from December 1, 2004 through November 30, 2005, \$63.00 from December 1, 2005 through November 30, 2006 and \$66.50 from December 1, 2006 through November 30, 2007. The Authority is required to match all participant contributions (the aggregate annual contribution must meet or exceed the minimum funding standards of ERISA).

### *Actuarial Methods and Assumptions*

The required contribution was determined as part of the January 1, 2006 actuarial valuation using the entry age normal, frozen initial liability actuarial cost method. The actuarial value of assets was determined using contract values for insurances contracts and market value for other accounts. Significant actuarial assumptions used in the valuation include a) a rate of return on the investment of present and future assets of 6.00% compounded annually, b) mortality established with the RP-2000 table, male and females rates, c) expenses deducted from the fund according to expense scales in the service agreement, d) 12.15% withdrawal rate at age 20 graded down to 2.1% at age 55, and, e) no post-retirement benefit increases. Unfunded actuarial accrued liabilities are amortized using the level dollar method over a closed period. The remaining amortization period is 25 years.

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### Administrative Employees' Pension Plan

#### *Plan Membership*

Membership of the plan consisted of the following:

	<u>January 1,</u>	
	<u>2007</u>	<u>2006</u>
Retirees and beneficiaries receiving benefits	-	-
Terminated plan members entitled to but not yet receiving benefits	17	13
Active plan members	<u>47</u>	<u>48</u>
<b>Total</b>	<b><u>64</u></b>	<b><u>61</u></b>

#### *Plan Description*

The Authority administers the Administrative Employees' Pension Plan, a single-employer, defined benefit pension plan that covers substantially all administrative employees with at least six months of service. Benefit provisions are established and may be amended by the Authority's Board of Directors under the Capital Area Transportation Authority Retirement Plan (#002) subject to the terms of collective bargaining. The Board has delegated the authority to manage certain plan assets to Principal Life Insurance Company. Separate financial statements of the Plan have not been issued.

Benefits are 100% vested after 10 years of service. Authority employees who retire at or after age 59 are entitled to a monthly benefit equal to 70% of the average compensation multiplied by the accrued benefit adjustment and the short service percentage. Early retirement is available on or after age 55 at a reduced monthly benefit. The plan also provides disability, single sum death and survivor annuity death benefits.

#### *Contributions*

The active participants are required to contribute 5% of their compensation paid per month. The Authority is required to contribute the remaining amounts necessary to fund the plan using an actuarial basis specified by statute (the aggregate annual contribution must meet or exceed the minimum funding standards of ERISA).



# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### *Actuarial Methods and Assumptions*

The required contribution was determined as part of the January 1, 2006 actuarial valuation using the entry age normal-frozen initial liability actuarial cost method. The actuarial value of assets was determined using contract values for insurances contracts and market value for other accounts. Significant actuarial assumptions used in the valuation include: a) a rate of return on the investment of present and future assets of 6.75% a year compounded annually, b) mortality established with RP-2000 Combined Mortality Table, male and female, projected to 2005 with scale AA, c) expenses are deducted from the fund according to expense scales in the service agreement, d) 12.15% withdrawal rate at age 20 graded down to 2.1% at age 55, and e) projected salary increases are based on Table S-5 from the Actuary's Pension Handbook plus 3.00%. Unfunded actuarial accrued liabilities are amortized using the level dollar method over a closed period. The weighted average remaining amortization period is 20 years.

### **Three-year trend information**

#### **Union Employees' Pension Plan:**

<u>Year ending</u>	<u>Annual Pension Cost</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$ 528,018	100%	\$ -
12/31/05	578,050	100	-
12/31/06	618,782	100	-

#### **Administrative Employees' Pension Plan:**

<u>Year ending</u>	<u>Annual Pension Cost</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	\$ 516,385	100%	\$ -
12/31/05	623,058	100	-
12/31/06	701,132	100	-

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

### Financial Statements for individual pension plans

#### Pension Net Assets

	Union Plan		Administrative Plan		Totals	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Investments in insurance contracts	\$ 15,173,517	\$ 13,946,697	\$ 10,720,434	\$ 9,641,610	\$ 25,893,951	\$ 23,588,307
Accounts receivable	-	-	701,132	623,058	701,132.00	623,058.00
<b>Total assets</b>	<u>15,173,517</u>	<u>13,946,697</u>	<u>11,421,566</u>	<u>10,264,668</u>	<u>26,595,083</u>	<u>24,211,365</u>
<b>Net assets held in trust for pension benefits</b>	<u>\$ 15,173,517</u>	<u>\$ 13,946,697</u>	<u>\$ 11,421,566</u>	<u>\$ 10,264,668</u>	<u>\$ 26,595,083</u>	<u>\$ 24,211,365</u>

#### Changes in Pension Net Assets

<b>Additions</b>						
Investment income:						
Contract investment income	\$ 557,193	\$ 544,920	\$ 384,391	\$ 352,633	\$ 941,584	\$ 897,553
Net appreciation in fair value of investments	364,560	103,729	339,734	97,800	704,294	201,529
Net investment income	<u>921,753</u>	<u>648,649</u>	<u>724,125</u>	<u>450,433</u>	<u>1,645,878</u>	<u>1,099,082</u>
Contributions:						
Employer	618,782	578,050	701,132	623,058	1,319,914	1,201,108
Plan members	<u>618,781</u>	<u>578,049</u>	<u>125,530</u>	<u>127,733</u>	<u>744,311</u>	<u>705,782</u>
Total contributions	<u>1,237,563</u>	<u>1,156,099</u>	<u>826,662</u>	<u>750,791</u>	<u>2,064,225</u>	<u>1,906,890</u>
Total additions	<u>2,159,316</u>	<u>1,804,748</u>	<u>1,550,787</u>	<u>1,201,224</u>	<u>3,710,103</u>	<u>3,005,972</u>
<b>Deductions</b>						
Participant benefits	898,348	852,031	372,602	175,447	1,270,950	1,027,478
Administrative expenses	<u>34,148</u>	<u>25,282</u>	<u>21,287</u>	<u>20,997</u>	<u>55,435</u>	<u>46,279</u>
Total deductions	<u>932,496</u>	<u>877,313</u>	<u>393,889</u>	<u>196,444</u>	<u>1,326,385</u>	<u>1,073,757</u>
Net additions (deductions) to net assets held in trust	1,226,820	927,435	1,156,898	1,004,780	2,383,718	1,932,215
<b>Net assets held in trust for pension benefits:</b>						
Beginning of year, as restated	<u>13,946,697</u>	<u>13,019,262</u>	<u>10,264,668</u>	<u>9,259,888</u>	<u>24,211,365</u>	<u>22,279,150</u>
End of year	<u>\$ 15,173,517</u>	<u>\$ 13,946,697</u>	<u>\$ 11,421,566</u>	<u>\$ 10,264,668</u>	<u>\$ 26,595,083</u>	<u>\$ 24,211,365</u>

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Notes to Financial Statements

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### **C. Post Retirement Benefits**

In addition to the pension benefits described in Note B, the Authority provides post retirement health care and life insurance benefits to all employees who retire from the Authority after obtaining age 59 under provisions established in union and administrative contracts. Benefits covered 69 retirees and 17 beneficiaries for the year ended September 30, 2007 and 61 retirees and 18 beneficiaries for the year ended September 30, 2006. The Authority provides \$10,000 life insurance benefit for all retirees who retired after December 1, 1986 and \$15,000 for all administrative retirees after January 1, 1996. The Authority provides health care coverage for all eligible retirees from ages 59 to 65. Beyond age 65, medical coverage is provided in the form of a Medicare complementary coverage. For the year ended September 30, 2007 and 2006, expenses for post-retirement life insurance coverage were \$17,014 and \$19,375, respectively, and expenses for post-retirement health care coverage were \$675,668 and \$444,886, respectively. These benefits are financed on a pay-as-you-go basis.

### **D. Commitments and Contingencies**

Bus tires are to be furnished to the Authority under the terms of a supplier agreement effective July 1, 2003, which expires June 30, 2008 and is renewable on a year to year basis. Payments for the use of the tires are to be made monthly and are based on the number of miles run. Bus tire expense for the years ended September 30, 2007 and 2006 was \$112,385 and \$141,623, respectively.

### **E. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Authority's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

### **F. Cost Allocation Plan**

The Authority has a cost allocation plan for all allocated expenses. The allocation plan was approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation, Bus Transit Division. The plan has been adhered to in the preparation of the financial statements.

\* \* \* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION

**Capital Area Transportation Authority**  
**Union Employees' Retirement Plan**  
**Required Supplementary Information**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (B)</b>	<b>Underfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll ((B-A)/C)</b>
12/31/1999	\$ 4,523,872	\$ 7,759,514	\$ 3,235,642	58.3%	\$ 7,820,000	41.4%
12/31/2000	3,827,273	7,112,431	3,285,158	53.8%	9,160,000	35.9%
12/31/2001	4,983,351	7,881,876	2,898,525	63.2%	9,740,000	29.8%
12/31/2002	5,622,377	8,229,826	2,607,449	68.3%	10,300,000	25.3%
12/31/2003	6,950,751	10,478,614	3,527,863	66.3%	8,159,347	43.2%
12/31/2004	8,260,313	11,990,334	3,730,021	68.9%	9,080,048	41.1%
12/31/2005	9,547,235	13,413,493	3,866,258	71.2%	9,476,609	40.8%
12/31/2006	10,966,837	16,796,540	5,829,703	65.3%	9,025,657	64.6%

\* Actuarial value of assets excludes the amount set aside for the retired lives guaranteed in the "floor" option of the IPG contract.

**Schedule of Employer Contributions**

<b>Year Ended December 31,</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>
1999	\$ 308,035	100.0%
2000	397,670	100.0%
2001	434,192	100.0%
2002	481,997	100.0%
2003	532,506	100.0%
2004	528,018	100.0%
2005	578,050	100.0%
2006	618,782	100.0%

**Capital Area Transportation Authority  
Administrative Employees' Retirement Plan  
Required Supplementary Information**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets* (A)</b>	<b>Actuarial Accrued Liability (B)</b>	<b>Underfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll ((B-A)/C)</b>
12/31/1999	\$ 4,051,297	\$ 4,537,818	\$ 486,521	89.3%	\$ 1,699,739	28.6%
12/31/2000	4,283,955	4,760,717	476,762	90.0%	1,656,500	28.8%
12/31/2001	5,425,247	6,268,202	842,955	86.6%	1,910,099	44.1%
12/31/2002	6,330,615	7,155,752	825,137	88.5%	1,939,012	42.6%
12/31/2003	6,968,603	8,068,629	1,100,026	86.4%	2,051,153	53.6%
12/31/2004	7,204,737	8,278,606	1,073,869	87.0%	2,320,612	46.3%
12/31/2005	8,258,958	9,715,544	1,456,586	85.0%	2,308,291	63.1%
12/31/2006	9,391,968	10,811,457	1,419,489	86.9%	2,156,568	65.8%

\* Actuarial value of assets excludes the amount set aside for the retired lives guaranteed in the "floor" option of the IPG contract.

**Schedule of Employer Contributions**

<b><u>Year Ended December 31,</u></b>	<b><u>Annual Required Contributions</u></b>	<b><u>Percentage Contributed</u></b>
1999	\$ 242,656	100.0%
2000	364,470	100.0%
2001	329,624	100.0%
2002	389,922	100.0%
2003	417,721	100.0%
2004	516,385	100.0%
2005	623,058	100.0%
2006	701,132	100.0%

## SUPPLEMENTARY INFORMATION

# Capital Area Transportation Authority

## Schedule of Operating Expenses

	For the Year Ended September 30, 2007			
	Operations	Maintenance	Administration	Total
Labor:				
Operator salaries and wages	\$ 8,521,438	\$ -	\$ -	\$ 8,521,438
Other salaries and wages	1,299,808	1,802,138	1,190,231	4,292,177
Fringe benefits	6,361,568	1,167,319	770,851	8,299,738
Purchased services:				
Advertising	-	-	527,544	527,544
Other	72,130	411,081	969,513	1,452,724
Materials and supplies consumed:				
Fuel and lubricants	2,240,147	49,629	-	2,289,776
Tires and tubes	110,884	1,501	-	112,385
Other materials and supplies	30,969	1,013,133	307,266	1,351,368
Utilities	2,337	8,397	438,338	449,072
Casualty and liability costs:				
Premiums for public liability and property damage insurance	-	-	957,857	957,857
Other casualty and liability costs	-	157,060	-	157,060
Purchased transportation services	3,754,539	-	-	3,754,539
Miscellaneous expenses	28,097	11,891	134,899	174,887
Interest	-	-	212,694	212,694
Leases and rentals	3,240	1,691	29,877	34,808
Depreciation	3,565,976	245,444	1,316,531	5,127,951
Total operating expenses	<u>\$ 25,991,133</u>	<u>\$ 4,869,284</u>	<u>\$ 6,855,601</u>	<u>\$ 37,716,018</u>



**For the Year Ended September 30, 2006**

<u>Operations</u>	<u>Maintenance</u>	<u>Administration</u>	<u>Total</u>
\$ 8,517,463	\$ -	\$ -	\$ 8,517,463
1,421,312	1,644,941	922,886	3,989,139
6,425,164	1,192,600	782,430	8,400,194
-	-	315,147	315,147
68,270	326,645	993,421	1,388,336
2,272,787	49,935	-	2,322,722
163,641	1,220	-	164,861
29,898	831,087	303,464	1,164,449
2,988	5,852	435,812	444,652
-	-	683,207	683,207
-	147,263	-	147,263
3,433,690	-	-	3,433,690
42,615	13,522	159,463	215,600
-	-	240,679	240,679
3,240	1,551	24,762	29,553
2,900,381	272,544	1,170,463	4,343,388
<u>\$ 25,281,449</u>	<u>\$ 4,487,160</u>	<u>\$ 6,031,734</u>	<u>\$ 35,800,343</u>

**Capital Area Transportation Authority**  
**Schedule of Nonoperating Revenues**  
**For the Years Ended September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Local nonoperating revenues:</b>		
Property tax levy	\$ 12,881,337	\$ 11,984,378
Single business tax inventory reimbursement	(1,348)	110,074
Ingham County - county wide service	3,280,214	2,600,000
Property management fees	199,000	199,000
Insurance participation fees	159,014	138,848
Gain on sale of assets	48,260	4,125
	<u>16,566,477</u>	<u>15,036,425</u>
<b>Total local nonoperating revenues</b>		
<b>State of Michigan operating grants:</b>		
Operating grant (Act 51) 1994 (urban)	9,797,577	9,623,578
Operating grant (Act 51) 1994 (rural)	472,503	459,662
Operating grants - other	(50,819)	444,167
Specialized services assistance	72,206	72,166
State grant adjustments	-	4,474
	<u>10,291,467</u>	<u>10,604,047</u>
<b>Total State of Michigan operating grants</b>		
<b>Federal operating grants:</b>		
U.S. Department of Transportation, operating grant - Section 5311	207,989	208,354
Preventive maintenance	612,000	612,000
Adjustments on closed projects	-	26,999
Section 9 planning	134,564	100,772
Other federal revenue	363,204	336,204
	<u>1,317,757</u>	<u>1,284,329</u>
<b>Total federal operating grants</b>		
<b>Investment Income</b>	<u>498,973</u>	<u>426,190</u>
<b>Total nonoperating revenues</b>	<u><u>\$ 28,674,674</u></u>	<u><u>\$ 27,350,991</u></u>

**Capital Area Transportation Authority**  
**Schedule of Local Revenues**  
**For the Years Ended September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Linehaul	\$ 2,993,073	\$ 2,876,764
MSU extra services	1,619,520	1,460,886
Spectran	636,546	605,480
CATA rural service	62,761	53,106
Senior/Handicapper shopping bus	8,418	8,016
Meridian Redi-Ride	300,475	287,703
Specialized services	206,741	272,594
Property tax revenue	15,859,728	14,694,452
Investment income	498,973	426,190
Property management fees	199,000	199,000
Insurance participation fees	159,014	138,848
Gain on sale of assets	48,260	4,125
Other	<u>552,522</u>	<u>549,921</u>
Total	<u>\$ 23,145,031</u>	<u>\$ 21,577,085</u>

**Capital Area Transportation Authority**  
**Schedule of Operating and Contract Expenses**  
**For the Year Ended September 30, 2007**

<u><b>Expenses</b></u>	<b>Urban</b>	<b>Nonurban</b>	<b>Specialized Services</b>	<b>Total</b>
Labor	\$ 12,677,036	\$ 136,579	\$ -	\$ 12,813,615
Fringe benefits	8,211,322	88,416	-	8,299,738
Purchased services:				
Advertising	509,156	18,388	-	527,544
Other	1,406,710	46,014	-	1,452,724
Materials and supplies	3,737,779	15,750	-	3,753,529
Utilities	433,368	15,704	-	449,072
Casualty and liability costs	1,110,035	4,882	-	1,114,917
Purchased transportation services	2,717,960	882,509	154,070	3,754,539
Miscellaneous expenses	170,237	4,650	-	174,887
Interest	212,694	-	-	212,694
Leases and rentals	33,140	1,668	-	34,808
Depreciation	4,941,686	186,265	-	5,127,951
Total expenses	<u>\$ 36,161,123</u>	<u>\$ 1,400,825</u>	<u>\$ 154,070</u>	<u>\$ 37,716,018</u>

**Capital Area Transportation Authority**  
**Schedule of Expenses by Contract and General Operations**  
**For the Year Ended September 30, 2007**

	<b>MI-90-X485 Commute Options</b>	<b>MI-90-X485 Public Education</b>	<b>MI-90-X510 Commute Options</b>	<b>MI-90-X510 Public Education</b>	<b>MI-90-X452 Planning</b>
Labor	\$ 27,746	\$ -	\$ 3,107	\$ -	\$ -
Fringe benefits	18,634	-	2,087	-	-
Purchased services:					
Advertising	-	-	-	-	-
Other	14,854	17,392	-	2,425	44,180
Materials and supplies	6,103	37,758	193	-	-
Utilities	-	-	-	-	-
Casualty and liability costs	-	-	-	-	-
Purchased transportation services	-	-	-	-	-
Miscellaneous expenses	3,903	55,327	742	2,777	-
Interest	-	-	-	-	-
Leases and rentals	-	-	-	-	-
Depreciation	-	-	-	-	-
Total operating expenses	<u>\$ 71,240</u>	<u>\$ 110,477</u>	<u>\$ 6,129</u>	<u>\$ 5,202</u>	<u>\$ 44,180</u>

<b>MI-90-X491 Planning</b>	<b>MI-90-X528 Preventative Maintenance</b>	<b>MI-90-X528 Bus Lease</b>	<b>MI-90-Xxxx Bus Lease</b>	<b>2002-0024/Z24 Special Services</b>	<b>General Operations</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,782,762	\$ 12,813,615
-	-	-	-	-	8,279,017	8,299,738
	-	-	-	-	527,544	527,544
90,384	-	-	-	-	1,283,489	1,452,724
-	612,000	-	-	-	3,097,475	3,753,529
-	-	-	-	-	449,072	449,072
-	-	-	-	-	1,114,917	1,114,917
-	-	-	-	154,070	3,600,469	3,754,539
-	-	-	-	-	112,138	174,887
-	-	131,022	81,672	-	-	212,694
-	-	-	-	-	34,808	34,808
-	-	437,276	324,256	-	4,366,419	5,127,951
<u>\$ 90,384</u>	<u>\$ 612,000</u>	<u>\$ 568,298</u>	<u>\$ 405,928</u>	<u>\$ 154,070</u>	<u>\$ 35,648,110</u>	<u>\$ 37,716,018</u>

**Capital Area Transportation Authority**  
**Urban Regular Service Revenue Report**  
**For the Year Ended September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Amount</b>
<b>401 :</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$3,638,037
40200	Contract Fares	\$653,961
<b>406 :</b>	<b>Auxiliary Trans Revenues</b>	
40610	Concessions	\$425
<b>407 :</b>	<b>NonTrans Revenues</b>	
40720	Rental of Bldgs or Other Property	\$74,787
40799	Other NonTrans Revenue	\$431,503
<b>408 :</b>	<b>Local Revenue</b>	
40800	Taxes Levied Directly for/by Transit Agency	\$15,681,337
<b>409</b>	<b>Local Revenue</b>	
40910	Local Operating Assistance	\$1,619,520
40920	Single Business Tax	-\$1,348
<b>411 :</b>	<b>State Formula and Contracts</b>	
41101	State Operating Assistance	\$9,797,577
41199	Other State Contracts and Reimbursements	\$21,387
<b>413 :</b>	<b>Federal Contracts</b>	
41311	Preventative Maintenance	\$612,000
41313	Capital Contract Reimbursement for Admin Expenses	\$134,564
41399	Other FTA Contracts & Reimbursements	\$363,204
<b>414 :</b>	<b>Other Revenue</b>	
41400	Interest Income	\$498,973
<b>TOTAL REVENUE</b>		<b><u>\$33,525,927</u></b>

**Capital Area Transportation Authority**  
**Urban Regular Service Expense Report**  
**For the Year Ended September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Operations</b>	<b>Maintenance</b>	<b>Gen. Admin.</b>	<b>Total</b>
<b>501 :</b>	<b>Labor</b>				
50101	Operators Salaries & Wages	\$ 8,521,438	\$ -	\$ -	\$ 8,521,438
50102	Other Salaries & Wages	\$ 986,495	\$ 1,792,019	\$ 1,148,609	\$ 3,927,123
50103	Dispatchers' Salaries & Wages	\$ 228,475	\$ -	\$ -	\$ 228,475
<b>502 :</b>	<b>Fringe Benefits</b>				
50200	Other Fringe Benefits	\$ 6,306,657	\$ 1,160,777	\$ 743,888	\$ 8,211,322
<b>503 :</b>	<b>Services</b>				
50302	Advertising Fees	\$ -	\$ -	\$ 509,156	\$ 509,156
50305	Audit Cost	\$ -	\$ -	\$ 24,316	\$ 24,316
50399	Other Services	\$ 67,157	\$ 400,360	\$ 914,877	\$ 1,382,394
<b>504 :</b>	<b>Materials and Supplies</b>				
50401	Fuel & Lubricants	\$ 2,240,147	\$ 49,629	\$ -	\$ 2,289,776
50402	Tires & Tubes	\$ 110,884	\$ 1,501	\$ -	\$ 112,385
50499	Other Materials & Supplies	\$ 30,268	\$ 1,008,820	\$ 296,530	\$ 1,335,618
<b>505 :</b>	<b>Utilities</b>				
50500	Utilities	\$ 2,337	\$ 8,103	\$ 422,928	\$ 433,368
<b>506 :</b>	<b>Insurance</b>				
50603	Liability Insurance	\$ 952,975	\$ -	\$ -	\$ 952,975
50699	Other Insurance	\$ -	\$ -	\$ 157,060	\$ 157,060
<b>508 :</b>	<b>Purchased Trans Service</b>				
50800	Purchased Trans Service	\$ 2,717,960	\$ -	\$ -	\$ 2,717,960
<b>509 :</b>	<b>Misc Expenses</b>				
50902	Travel, Meetings & Training	\$ 20,682	\$ 10,443	\$ 43,814	\$ 74,939
50903	Association Dues & Subscriptions	\$ 1,099	\$ 1,435	\$ 72,412	\$ 74,946
50999	Other Misc Expenses	\$ 6,315	\$ -	\$ 14,037	\$ 20,352
<b>511 :</b>	<b>Interest Expense</b>				
51101	Interest on Long-Term Debt	\$ -	\$ -	\$ 212,694	\$ 212,694
<b>512 :</b>	<b>Operating Leases &amp; Rentals</b>				
51200	Operating Leases & Rentals	\$ -	\$ -	\$ 33,140	\$ 33,140
<b>513 :</b>	<b>Depreciation</b>				
51300	Depreciation	\$ 3,390,259	\$ 245,444	\$ 1,305,983	\$ 4,941,686
<b>550 :</b>	<b>Ineligible Expenses</b>				
55007	Ineligible Depreciation	\$ 3,344,814	\$ 244,238	\$ 1,287,252	\$ 4,876,304
55009	Ineligible Percent of Association Dues	\$ -	\$ -	\$ 4,661	\$ 4,661
55011	Ineligible Preventive Maintenance	\$ -	\$ 612,000	\$ -	\$ 612,000
<b>576 :</b>	<b>Ineligible Expenses</b>				
57603	Ineligible Admin Expense Paid by Capital Contract	\$ -	\$ -	\$ 540,307	\$ 540,307
<b>Total Expenses</b>					<b>\$ 36,161,123</b>
<b>Total Ineligible Expenses</b>					<b>\$ 6,033,272</b>
<b>Total Eligible Expenses</b>					<b>\$ 30,127,851</b>



**Capital Area Transportation Authority**  
**Urban Regular Service Nonfinancial Report**  
**For the Year Ended September 30, 2007**  
(Unaudited)

**Public Service**

<b>Code</b>	<b>Description</b>	<b>Weekday</b>	<b>Saturday</b>	<b>Sunday</b>	<b>Total</b>
610	Vehicle Hours	364,213	38,111	21,946	424,270
611	Vehicle Miles	4,993,069	466,504	273,365	5,732,938

**Capital Area Transportation Authority**  
**Nonurban Regular Service Revenue Report**  
**For the Year Ended September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Amount</b>
<b>401 :</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$62,761
<b>406 :</b>	<b>Auxiliary Trans Revenues</b>	
40699	Other	\$4,861
<b>408 :</b>	<b>Local Revenue</b>	
40800	Taxes Levied Directly for/by Transit Agency	\$480,214
<b>411 :</b>	<b>State Formula and Contracts</b>	
41101	State Operating Assistance	\$472,503
<b>413 :</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311	\$207,989
<b>TOTAL REVENUE</b>		<b><u><u>\$1,228,328</u></u></b>

**Capital Area Transportation Authority**  
**Nonurban Regular Service Expense Report**  
**For the Year Ended September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Operations</b>	<b>Maintenance</b>	<b>Gen. Admin.</b>	<b>Total</b>
<b>501 :</b>	<b>Labor</b>				
50102	Other Salaries & Wages	\$ 84,838	\$ 10,119	\$ 41,622	\$ 136,579
<b>502 :</b>	<b>Fringe Benefits</b>				
50200	Other Fringe Benefits	\$ 54,911	\$ 6,542	\$ 26,963	\$ 88,416
<b>503 :</b>	<b>Services</b>				
50302	Advertising Fees	\$ -	\$ -	\$ 18,388	\$ 18,388
50305	Audit Cost	\$ -	\$ -	\$ 884	\$ 884
50399	Other Services	\$ 4,973	\$ 10,721	\$ 29,436	\$ 45,130
<b>504 :</b>	<b>Materials and Supplies</b>				
50499	Other Materials & Supplies	\$ 701	\$ 4,313	\$ 10,736	\$ 15,750
<b>505 :</b>	<b>Utilities</b>				
50500	Utilities	\$ -	\$ 294	\$ 15,410	\$ 15,704
<b>506 :</b>	<b>Insurance</b>				
50603	Liability Insurance	\$ 4,882	\$ -	\$ -	\$ 4,882
<b>508 :</b>	<b>Purchased Trans Service</b>				
50800	Purchased Trans Service	\$ 882,509	\$ -	\$ -	\$ 882,509
<b>509 :</b>	<b>Misc Expenses</b>				
50902	Travel, Meetings & Training	\$ 1	\$ 3	\$ 1,579	\$ 1,583
50903	Association Dues & Subscriptions	\$ -	\$ 10	\$ 2,620	\$ 2,630
50999	Other Misc Expenses	\$ -	\$ -	\$ 437	\$ 437
<b>512 :</b>	<b>Operating Leases &amp; Rentals</b>				
51200	Operating Leases & Rentals	\$ -	\$ -	\$ 1,668	\$ 1,668
<b>513 :</b>	<b>Depreciation</b>				
51300	Depreciation	\$ 175,717	\$ -	\$ 10,548	\$ 186,265
<b>550 :</b>	<b>Ineligible Expenses</b>				
55007	Ineligible Depreciation	\$ 166,961	\$ -	\$ 10,397	\$ 177,358
<b>Total Expenses</b>					<b>\$ 1,400,825</b>
<b>Total Ineligible Expenses</b>					<b>\$ 177,358</b>
<b>Total Eligible Expenses</b>					<b>\$ 1,223,467</b>

**Capital Area Transportation Authority**  
**Nonurban Regular Service Nonfinancial Report**  
**For the Year Ended September 30, 2007**  
(Unaudited)

**Public Service**

<b>Code</b>	<b>Description</b>	<b>Weekday</b>	<b>Saturday</b>	<b>Sunday</b>	<b>Total</b>
610	Vehicle Hours	20,301	977	0	21,278
611	Vehicle Miles	399,033	13,194	0	412,227

**Capital Area Transportation Authority**  
**Operating Assistance Calculation**  
**For the Year Ended September 30, 2007**

	<u>Urban</u>	<u>Nonurban</u>
Total Expenses	<u>\$ 36,161,123</u>	<u>\$ 1,400,825</u>
Less Ineligible expenses		
Interest Expense	212,694	-
Depreciation	4,876,304	177,358
Association Dues	4,661	-
Preventive Maintenance	612,000	-
Admin Expense paid by Capital Contract	327,613	-
Total Ineligible Expenses Per R&E Manual	<u>6,033,272</u>	<u>177,358</u>
<b>Total State Eligible Expenses</b>	<b><u>\$ 30,127,851</u></b>	<b><u>\$ 1,223,467</u></b>

Eligible Expenses for State Reimbursement	\$ 30,127,851	\$ 1,223,467
x Reimbursement Percentage	<u>0.3252</u>	<u>0.3862</u>
State Operating Assistance	<u>\$ 9,797,577</u>	<u>\$ 472,503</u>

**Total Federal Eligible Expenses**

Eligible Expenses for State Reimbursement	\$ 1,223,467
x Reimbursement Percentage	<u>0.1700</u>
Federal Section 5311 Operating Assistance	<u>\$ 207,989</u>

**Capital Area Transportation Authority**  
**Schedule of Computations of Net Eligible Costs for General Operations**

	<b>Year Ended September 30, 2007</b>		<b>Year Ended September 30, 2006</b>	
	<b>Federal Operating Assistance</b>	<b>State Operating Assistance</b>	<b>Federal Operating Assistance</b>	<b>State Operating Assistance</b>
<b><u>Section 5307 and Act 51 (Urban)</u></b>				
General operating expenses	\$ 35,648,110	\$ 35,648,110	\$ 34,536,036	\$ 34,536,036
Less ineligible expenses:				
Miscellaneous	4,661	4,661	13,837	13,837
Depreciation	4,292,130	4,292,130	4,261,298	4,261,298
Section 18 operating expenses	1,223,467	1,223,467	1,171,113	1,171,113
	<u>5,520,258</u>	<u>5,520,258</u>	<u>5,446,248</u>	<u>5,446,248</u>
Net eligible expenses	30,127,852	<u>30,127,852</u>	29,089,788	<u>29,089,788</u>
Less project revenue:				
Fairbox	<u>3,721,617</u>		<u>3,721,617</u>	
Net expenses - federal	<u>\$ 26,406,235</u>		<u>\$ 25,368,171</u>	
Maximum federal reimbursement (50%)	<u>\$ 13,203,118</u>		<u>\$ 12,684,086</u>	
Maximum state reimbursement (50%)		<u>\$ 15,063,926</u>		<u>\$ 14,544,894</u>
<b><u>Section 5311 and Act 51 (Rural)</u></b>				
General operating expenses	\$ 1,223,467	<u>\$ 1,223,467</u>	\$ 1,050,422	<u>\$ 1,050,422</u>
Less project revenue:				
Fairbox	<u>62,761</u>		<u>68,376</u>	
Net expenses - federal	<u>\$ 1,160,706</u>		<u>\$ 982,046</u>	
Maximum federal reimbursement (60%)	<u>\$ 696,424</u>		<u>\$ 589,228</u>	
Maximum state reimbursement (60%)		<u>\$ 734,080</u>		<u>\$ 630,253</u>
Federal funding (17.00%)	<u>\$ 207,989</u>		<u>\$ 115,021</u>	

**Capital Area Transportation Authority**  
**Schedule of Mileage Data**  
**(Unaudited)**

	<u>Year Ended September 30, 2007</u>		<u>Year Ended September 30, 2006</u>	
	<u>Public</u>	<u>Purchased</u>	<u>Public</u>	<u>Purchased</u>
	<u>Transportation</u>	<u>Transportation</u>	<u>Transportation</u>	<u>Transportation</u>
	<u>Mileage</u>	<u>Mileage</u>	<u>Mileage</u>	<u>Mileage</u>
Linehaul:				
1st quarter	826,552		854,509	
2nd quarter	820,678		971,117	
3rd quarter	701,193		714,833	
4th quarter	<u>731,741</u>		<u>702,864</u>	
Total linehaul	<u>3,080,164</u>		<u>3,243,323</u>	
Demand response:				
1st quarter	207,951	543,642	179,406	515,050
2nd quarter	206,359	578,150	188,987	536,085
3rd quarter	206,017	561,909	187,953	522,225
4th quarter	<u>200,708</u>	<u>560,265</u>	<u>189,768</u>	<u>518,782</u>
Total demand response	<u>821,035</u>	<u>2,243,966</u>	<u>746,114</u>	<u>2,092,142</u>
Total operation	<u><u>3,901,199</u></u>	<u><u>2,243,966</u></u>	<u><u>3,989,437</u></u>	<u><u>2,092,142</u></u>

**Capital Area Transportation Authority**  
**Schedule of Vehicle Hours and Passengers**  
**(Unaudited)**

	<b>Year Ended September 30, 2007</b>			
	<b>Vehicle Hours</b>	<b>Regular Passengers</b>	<b>Senior Passengers</b>	<b>Disabled Passengers</b>
Linehaul:				
1st quarter	62,865	2,704,155	109,534	95,613
2nd quarter	62,639	2,993,784	106,669	93,110
3rd quarter	55,398	1,774,851	116,858	102,007
4th quarter	58,142	1,869,431	117,471	102,536
Total linehaul	239,044	9,342,221	450,532	393,266
Demand response:				
Regular:				
1st quarter	18,221	17,117	5,831	17,403
2nd quarter	18,115	20,018	5,299	17,555
3rd quarter	17,972	11,418	5,614	19,526
4th quarter	17,636	8,139	5,701	19,776
Total regular	71,944	56,692	22,445	74,260
Purchased transportation:				
1st quarter	33,086	14,525	19,084	50,880
2nd quarter	34,421	15,155	20,184	54,960
3rd quarter	33,607	14,034	19,516	51,787
4th quarter	33,446	13,077	18,854	51,276
Total purchased transportation	134,560	56,791	77,638	208,903
Total demand response	206,504	113,483	100,083	283,163
Total operation	445,548	9,455,704	550,615	676,429



<b>Year Ended September 30, 2006</b>			
<b>Vehicle Hours</b>	<b>Regular Passengers</b>	<b>Senior Passengers</b>	<b>Disabled Passengers</b>
68,322	2,522,757	105,806	92,359
69,406	2,808,120	104,791	91,471
51,337	1,634,073	107,495	93,833
57,465	1,815,041	105,214	91,838
246,530	8,779,991	423,306	369,501
15,983	10,714	5,262	15,828
16,651	12,944	5,599	16,839
16,205	8,693	6,202	16,839
16,470	6,938	6,358	17,229
65,309	39,289	23,421	66,735
32,110	12,431	19,891	47,187
32,882	13,973	21,076	50,324
32,592	13,340	20,022	49,110
31,949	11,956	19,400	48,055
129,533	51,700	80,389	194,676
194,842	90,989	103,810	261,411
441,372	8,870,980	527,116	630,912

## SINGLE AUDIT

**Capital Area Transportation Authority**  
**Schedule of Expenditures of Grant Awards**  
**For the Year Ended September 30, 2007**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor Number	State Grantor Number	Program or Award Amount	Federal Receipts	State Receipts	Expenditures (Revenues)	Receivable Balance 9/30/2007	Amount Remaining
<u>U.S. Department of Transportation</u>									
Direct Assistance (Federal Transit Cluster):									
UMTA Capital Assistance -FY05 s-5307	20.205	MI-90-X485		\$ 345,004	\$ 207,342	\$ -	\$ 181,718	\$ -	\$ -
UMTA Capital Assistance -FY04 s-5309	20.500	MI-03-0210		2,427,185	19,016	-	19,016	-	-
UMTA Capital Assistance -FY05 s-5309	20.500	MI-03-0217		4,130,057	1,437,460	-	783,021	1	333,837
UMTA Capital Assistance -FY06 s-5309-2	20.500	MI-04-0004		2,722,500	1,970,232	-	1,980,000	9,768	742,500
UMTA Capital Assistance -FY07 s-5309-2	20.500	MI-04-0017		850,000	-	-	-	-	850,000
UMTA Capital Assistance -FY04 s-5307	20.507	MI-90-X427		4,062,673	40,254	-	22,910	-	-
UMTA Capital Assistance -FY05 s-5307	20.507	MI-90-X452		4,597,297	1,311,373	-	670,643	48,332	1,261,117
UMTA Capital Assistance -FY06 s-5307	20.507	MI-90-X491		4,182,684	1,955,171	-	2,069,173	138,625	688,330
UMTA Capital Assistance -FY06 s-5307	20.507	MI-90-X510		395,720	160,720	-	172,051	11,331	223,669
UMTA Capital Assistance -FY07 s-5307	20.507	MI-90-X528		4,609,169	1,391,381	-	1,066,639	-	3,017,788
UMTA Capital Assistance -FY08 s-5307	20.507	MI-90-Xxxx		-	-	-	324,742	324,742	-
UMTA Capital Assistance -FY07 s-5309-3	20.507	MI-95-X005		207,000	-	-	-	-	207,000
				28,529,289	8,492,949	-	7,289,913	532,799	7,324,241
Passed through the Michigan Department of Transportation:									
Capital Assistance-Section -FY04 s-5313	20.515	MI-80-X013		48,000	10,079	-	10,079	-	13,921
				48,000	10,079	-	10,079	-	13,921
Total Federal Capital Assistance				28,577,289	8,503,028	-	7,299,992	532,799	7,338,162
<u>Michigan Department of Transportation</u>									
Direct Assistance:									
MDOT Capital Assistance -FY04 s-5307	N/A	02-0024-Z17		1,014,423	-	29,873	6,972	-	-
MDOT Capital Assistance -FY04 s-5309	N/A	02-0024-Z20		606,796	-	4,320	4,754	3,844	-
MDOT Capital Assistance -FY04 s-5313	N/A	02-0024-Z15		12,000	-	2,520	2,520	-	3,480
MDOT Capital Assistance -FY05 s-5307	N/A	02-0024-Z23		627,619	-	252,187	106,250	24,618	95,458
MDOT Capital Assistance -FY05 s-5309	N/A	02-0024-Z22		999,389	-	731,731	192,663	42,942	83,459
MDOT Capital Assistance -FY06 s-5307	N/A	02-0024-Z27		667,134	-	408,885	422,294	13,409	49,995
MDOT Capital Assistance -FY06 s-5307	N/A	02-0024-Z29		40,180	-	40,180	40,180	-	-
MDOT Capital Assistance -FY06 s-5309	N/A	02-0024-Z28		495,000	-	210,086	495,000	284,914	-
MDOT Capital Assistance -FY07 s-5307	N/A	07-0185-Z03		708,246	-	-	113,660	194,845	513,401
MDOT Capital Assistance -FY08 s-5307	N/A	07-0185-Zxx		-	-	-	81,186	81,186	-
Total State Capital Assistance				5,170,787	-	1,679,782	1,465,479	645,758	745,793
Total Capital Assistance				33,748,076	8,503,028	1,679,782	8,765,471	1,178,557	8,083,955
<u>U.S. Department of Transportation</u>									
Direct Assistance (Federal Transit Cluster):									
Operating Assistance - Section 9 Planning	20.507	MI-90-2452		263,000	-	-	44,180	44,180	18,820
Operating Assistance - Section 9 Planning	20.507	MI-90-2491		200,000	85,587	-	90,384	8,717	64,615
Operating Assistance - Section 9 Planning	20.507	MI-90-2528		200,000	-	-	-	-	200,000
				663,000	85,587	-	134,564	52,897	283,435
Passed through the Michigan Department of Transportation:									
Operating Assistance-Section 5311	20.509	02-0024-Z16		-	10,468	-	-	-	-
Operating Assistance-Section 5311	20.509	02-0024-Z21		-	-	-	-	(4)	-
Operating Assistance-Section 5311	20.509	02-0024-Z25		-	22,387	-	-	9,265	-
Operating Assistance-Section 5311	20.509	02-0185-Z02		212,507	145,750	-	207,989	62,239	-
				212,507	178,605	-	207,989	71,500	-
Total Federal Operating Assistance				875,507	264,192	-	342,553	124,397	283,435

**Capital Area Transportation Authority**  
**Schedule of Expenditures of Grant Awards (Concluded)**  
**For the Year Ended September 30, 2007**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor Number	State Grantor Number	Program or Award Amount	Federal Receipts	State Receipts	Expenditures (Revenues)	Receivable Balance 9/30/2007	Amount Remaining
<u>Michigan Department of Transportation</u>									
Direct Assistance:									
Operating Assistance - Act 51 (Rural)	N/A		FY 2007	\$ -	\$ -	\$ 482,777	\$ 472,503	\$ (10,274)	\$ -
Operating Assistance - Act 51 (Urban)	N/A		FY 2007	-	-	10,283,554	9,797,577	(485,977)	-
Operating Assistance - Act 51 (Urban)	N/A		prior years	-	-	(23,834)	(4,266)	-	-
Operating Assistance - Act 51 (Rural)	N/A		prior years	-	-	(61,286)	(89,092)	-	-
						-	-	-	
Specialized Services -FY07	N/A		02-0185-Z01	82,189	-	56,265	72,206	15,941	-
Project Zero-Ingham County -FY03	N/A		02-0024-Z05	-	-	(8,954)	-	-	-
Project Zero-Clinton County -FY03	N/A		02-0024-Z06	-	-	-	-	(12,172)	-
Total State Operating Assistance				82,189	-	10,728,522	10,248,928	(492,482)	-
Total Operating Assistance				957,696	264,192	10,728,522	10,591,481	(368,085)	283,435
Total Financial Assistance				\$ 34,705,772	\$ 8,767,220	\$ 12,408,304	\$ 19,356,952	\$ 810,472	\$ 8,367,390
Total Federal Financial Assistance				\$ 29,452,796	\$ 8,767,220	\$ -	\$ 7,642,545	\$ 657,196	\$ 7,621,597
Total State Financial Assistance				5,252,976	-	12,408,304	11,714,407	153,276	745,793
Total Financial Assistance				\$ 34,705,772	\$ 8,767,220	\$ 12,408,304	\$ 19,356,952	\$ 810,472	\$ 8,367,390

**Notes to Schedule of Expenditures of Grant Awards**

1 The above Schedule of Expenditures of Grant Awards presents the activity of all federal and state awards programs of Capital Area Transportation Authority. Federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Capital Area Transportation Authority is defined in Note 1 of the Authority's basic financial statements.

2 The accompanying Schedule of Grant Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the Authority's basic financial statements.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

 *an independent member of*  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

March 7, 2008

To the Board of Directors of the  
Capital Area Transportation Authority  
Lansing, Michigan

We have audited the financial statements of the major fund and the remaining fund information of *Capital Area Transportation Authority*, as of and for the year ended September 30, 2007, which collectively comprise the *Capital Area Transportation Authority's* basic financial statements, and have issued our report thereon dated March 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Capital Area Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Capital Area Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of *Capital Area Transportation Authority*, in a separate letter dated March 7, 2008.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

March 7, 2008

To the Board of Directors of the  
Capital Area Transportation Authority  
Lansing, Michigan

**Compliance**

We have audited the compliance of *Capital Area Transportation Authority* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. *Capital Area Transportation Authority's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of *Capital Area Transportation Authority's* management. Our responsibility is to express an opinion on *Capital Area Transportation Authority's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about *Capital Area Transportation Authority's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on *Capital Area Transportation Authority's* compliance with those requirements.

In our opinion, *Capital Area Transportation Authority* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

### **Internal Control Over Compliance**

The management of *Capital Area Transportation Authority* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered *Capital Area Transportation Authority's* internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an Authority's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# CAPITAL AREA TRANSPORTATION AUTHORITY

## Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2007

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes   X   no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant Deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes   X   no

# **CAPITAL AREA TRANSPORTATION AUTHORITY**

## **Schedule of Findings and Questioned Costs (Concluded)**

**For the Year Ended September 30, 2007**

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### **SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

**CFDA Number(s)**

**Name of Federal Program or Cluster**

20.500 & 20.507

Federal Transit Cluster

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   yes           no

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None.

### **SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COSTS**

None.

### **SECTION IV – PRIOR YEAR FINDINGS**

No matters were reported.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



March 7, 2008

To the Board of Directors of  
Capital Area Transportation Authority  
Lansing, Michigan

We have audited the financial statements of the major fund and the remaining fund information of the *Capital Area Transportation Authority* for the year ended September 30, 2007, and have issued our report thereon dated March 7, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated November 15, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered *Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether *Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about *Authority's* compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on *Authority's* compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on *Authority's* compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by *Authority* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by *Authority* during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims. We evaluated the key factors and assumptions used to develop the estimate in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the *Authority's* financial reporting process (that is, cause future financial statements to be materially misstated). All adjusting entries were identified by the Authority in the closing process and recorded.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the *Authority's* auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The information contained in this letter and the attached memorandum is intended solely for the use of the audit committee, the governing body, and management of the *Authority* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is written below the text "Very truly yours,".

# **CAPITAL AREA TRANSPORTATION AUTHORITY**

## **Comments and Recommendations**

**For the Year Ended September 30, 2007**

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In planning and performing our audit of the financial statements of Capital Area Transportation Authority as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### **OPEB Liability**

The Capital Area Transportation Authority, as well as other governmental units which offer other post employment benefits (health and life insurance benefits to retirees, or "OPEB") are going to require recording the annual cost and liability in the annual financial statements. Up until this new accounting standard is implemented, governmental units, including the Authority, have been on a "pay as you go" or cash basis to reflect these costs in their financial statements. This accounting treatment stays in place for the Authority through the fiscal year ended September 30, 2008. Then, for fiscal year 2009, this new reporting standard will require an actuarial report in order to determine funding requirements to force recording of a liability while service is rendered (normal cost), plus an adjustment for past service costs (called amortization of actuarial accrued liability).

# CAPITAL AREA TRANSPORTATION AUTHORITY

## Comments and Recommendations (Continued)

**For the Year Ended September 30, 2007**

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The amount of the annual “ARC” expense must be recorded on each entity’s financial statements. To the extent that this annual “ARC” amount is not currently funded, the under-funding must be reported on the entity’s balance sheet as a liability.

This comment is intended as an informational point. Accordingly, the Authority should make sure all preparations and forecasts are addressed as the implementation date draws nearer. As necessary, we will be available to assist the Authority in this implementation.

### **New Audit Standards Forthcoming**

We want to bring to your attention the significant changes to professional auditing standards. The new auditing standards, commonly known as the *Risk Suite* of standards, require that auditors perform additional procedures to assess risks relevant to financial statement reporting. Such risks include those from fraud, entity level internal control deficiencies, financial reporting system internal control deficiencies and business risks. The auditor must then directly link procedures performed to risks identified. You are likely aware of or have heard of the *Sarbanes Oxley Act* (“SOX”), which applies to public companies. Compliance with SOX was a major hurdle for most public companies. For several years, practitioners have believed that SOX-like rules would eventually become applicable to private companies, governmental entities and nonprofit organizations. The new standards effectively resemble components of SOX, and will also be challenging for auditors and their clients. There will clearly be an increased level of effort required to conduct a financial statement audit from both the auditor, and client personnel.

The Risk Suite of standards represents some of the most significant changes to our industry since GASB 34 was established. They continue the trend started by the fraud standards introduced a few years ago; the Risk Suite goes even further and impacts all aspects of the audit process.

Some of the key points from the new standards are as follows:

1. The new standards require an in depth understanding of entity level controls. The nature of these controls is that they are “top down”, starting with the governing board and top management levels (“tone at the top”; risk assessment; information and communication; and monitoring) and flowing through the entire organization. Accordingly, both the governing board and managers, both from finance and operations, will need to be actively involved in the audit process to enable the auditor to appropriately assess the effectiveness of such controls, and the related impact on planned audit procedures. This will likely take the form of additional inquiries, questionnaires, supporting policies and possibly flow charts to effectively demonstrate and document these entity level controls.

# **CAPITAL AREA TRANSPORTATION AUTHORITY**

## **Comments and Recommendations (Concluded)**

**For the Year Ended September 30, 2007**

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2. Control activities are required to be documented, assessed and tested in greater detail. Control activities include approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Under previous standards, an auditor was only required to obtain an understanding of control activities; the new standards require an assessment of the effectiveness of control activities. As such, much like the documentation of entity level controls, this will likely take the form of additional inquiries, checklists, questionnaires, and possibly flowcharts, and just like in SOX, “walkthroughs” of certain key control activities must be performed.

The hours incurred in performing the audit under the new standards will increase from both your staff and our firm, with the most significant portion in the first year of implementation. Estimates reported from firms and organizations that have already implemented the new standards indicate anticipated increases of 10% to 30%. Again, as mentioned earlier, the majority of this increase will occur during the interim stages of the audit, well in advance of the scheduled fieldwork dates. The key to minimizing additional audit costs under these new standards, and to insure timely delivery of the audit report, is active involvement by the governing board and top managers in the audit process and thorough commitment to and preparation for the audit.

As always, we will work closely with you and your staff to tailor your audit to ensure that it is as efficient and effective as possible in light of these new standards. We will be meeting with you in person in the upcoming weeks to further discuss these changes and the impact they will have on your audit.

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